GASB AND FASAB STANDARDS PRACTICE TEST (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

• Practice answering questions under realistic conditions,

• Improve accuracy and speed,

• Review explanations to strengthen weak areas, and

• Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. How is the premium on bonds payable treated in governmental activities?

A. Premium on Bonds Payable is recorded as a liability in governmental activities.

B. Premium on Bonds Payable is recorded as Revenue.

C. Premium on Bonds Payable is recorded as an asset.

D. Premium on Bonds Payable is recorded as an Other Financing Source.

2. Which item is typically included in the introductory section of an annual comprehensive financial report?

A. Letter of transmittal

B. Summary of the government's current financial position and results of financial activities

C. Organization chart

D. Principal officials

3. In Cambridge County's Wastewater Enterprise Fund, which amount should be reported as cash flows from investing activities?

A. $5,000,000

B. $300,000

C. $1,000,000

D. $0

4. Which factor would not indicate that a potential component unit (PCU) imposes a financial burden or provides a financial benefit to the primary government?

A. The primary government is entitled to its share of any dividends distributed by the PCU.

B. The PCU's governing board is separate from the primary government

C. The primary government bears the PCU's long-term debt

D. The PCU's activities primarily serve the primary government's purposes

5. Which expense category would typically be used to classify expenses that are related to delivering program services?

A. Management and general

B. Fundraising

C. Program services

D. Support from government

6. Under the modified accrual basis used by the General Fund, financial resources are considered available if the revenue or other financing source is expected to be collected:

A. During the current fiscal period or soon enough after year-end to pay current period obligations

B. Immediately

C. At year-end

D. In the next fiscal year

7. Under the modified accrual basis of accounting, expenditures are generally recognized when:

A. Cash is paid

B. A new encumbrance is created

C. An obligation is incurred that will be paid from currently available financial resources

D. Revenue is recognized

8. In which fund balance category would cash restricted by grant agreements be reported?

A. Restricted Fund Balance

B. Committed Fund Balance

C. Assigned Fund Balance

D. Unassigned Fund Balance

9. When a fire truck purchased from General Fund revenues is received, which General Fund account should be debited?

A. Expenditures

B. Assets

C. Encumbrances

D. Appropriations

10. The city amended its budget to increase grant revenues and increase expenditures by the same amount. The correct budget-amendment journal entry effect is:

A. There will be a net increase to Budgetary Fund Balance

B. There will be a net decrease to Budgetary Fund Balance

C. There will be a partial net adjustment to Budgetary Fund Balance

D. There will be no net adjustment to Budgetary Fund Balance

Answers

1. A
2. A
3. B
4. A
5. C
6. A
7. C
8. A
9. A
10. D

Explanations

1. How is the premium on bonds payable treated in governmental activities?

A. Premium on Bonds Payable is recorded as a liability in governmental activities.

B. Premium on Bonds Payable is recorded as Revenue.

C. Premium on Bonds Payable is recorded as an asset.

D. Premium on Bonds Payable is recorded as an Other Financing Source.

When a government issues bonds at a premium, the extra cash received above the bonds' face value is treated as a liability in governmental activities. This premium is recorded as a separate liability called Premium on Bonds Payable, alongside the Bonds Payable liability. This reflects the obligation the government has to amortize the premium over the life of the bonds, effectively reducing future interest expense rather than increasing revenue or assets. For example, at issuance you would debit Cash for the total proceeds, credit Bonds Payable for the face value, and credit Premium on Bonds Payable for the premium amount. Over time, the premium is amortized: you debit Premium on Bonds Payable and credit Interest Expense, which lowers the reported interest cost of the debt. The premium does not represent revenue or an asset; it is a financing-related liability that is gradually recognized as a reduction in interest expense. (For contrast, in governmental funds, the premium is typically shown as an Other Financing Source in the period of issue.)

2. Which item is typically included in the introductory section of an annual comprehensive financial report?

A. Letter of transmittal

B. Summary of the government's current financial position and results of financial activities

C. Organization chart

D. Principal officials

The introductory section is meant to orient readers and set the tone for the CAFR. The item you're most likely to find there is the Letter of Transmittal. This formal communication explains the government's mission, highlights major programs and initiatives, and provides an overview of significant financial activities and responsibilities. It helps readers understand the context for the rest of the report and what to look for in the financial statements. While organization charts and a directory of principal officials are also commonly included in the introductory portion to show governance structure, the Letter of Transmittal is the primary element readers expect to see up front. The summary of the government's current financial position and results of financial activities belongs in the financial section as part of the analysis and the basic financial statements, not in the introductory portion.

3. In Cambridge County's Wastewater Enterprise Fund, which amount should be reported as cash flows from investing activities?

A. $5,000,000

B. $300,000

C. $1,000,000

D. $0

Cash flows from investing activities reflect the cash effects of transactions involving investments and lending/loans, not everyday operations or capital financing. In a government enterprise fund, this section shows how much cash came from or went to buying and selling investments (and similar investing activities). The correct amount represents the net inflow or outflow from those investing activities. Here, the figure that matches investing activities is $300,000, which would be the net cash provided by selling investments (or similar investing activity) during the period. The other amounts pertain to either operating activities or capital/financing activities, and do not belong in the investing section. Therefore, reporting $300,000 as cash flows from investing activities is appropriate.

4. Which factor would not indicate that a potential component unit (PCU) imposes a financial burden or provides a financial benefit to the primary government?

A. The primary government is entitled to its share of any dividends distributed by the PCU.

B. The PCU's governing board is separate from the primary government

C. The primary government bears the PCU's long-term debt

D. The PCU's activities primarily serve the primary government's purposes

In determining whether a potential component unit is financially tied to the primary government, we look for indicators that the primary government either would have to bear the PCU's deficits or that the PCU's activities would flow financial benefits to the government. Dividends that the primary government is entitled to from the PCU describe a distribution of the PCU's earnings to owners, which is a return on investment rather than a direct obligation or service that creates ongoing financial burden or benefit tied to the PCU's operations. In other words, receiving a share of profits through dividends reflects equity ownership and potential income, not a mechanism by which the primary government takes on costs or gains assured financial support from the PCU's activities. By contrast, other factors signal a closer financial relationship. If the primary government bears the PCU's long-term debt, there is a clear financial obligation that could affect the government's resources. If the PCU's activities primarily serve the primary government's purposes, the PCU exists to provide a benefit to the government's operations. And if the PCU's governing board is separate, that points to independence rather than a direct financial tie that would imply ongoing burden or benefit.

5. Which expense category would typically be used to classify expenses that are related to delivering program services?

A. Management and general

B. Fundraising

C. Program services

D. Support from government

Focusing expenses by function reveals what resources are used to carry out the entity's programs. When costs are directly linked to delivering program activities—such as staff working on a specific program, materials used for that program, or depreciation on facilities used to run it—that money should be shown under program services. This category captures the core activities the entity exists to perform. Administrative and support costs belong to management and general, reflecting overhead needed to run the organization but not tied to a particular program. Fundraising expenses, if applicable, cover activities aimed at obtaining resources, not delivering programs. Support from government is typically recorded as revenue, not as an expense category, so it wouldn't fit here.

6. Under the modified accrual basis used by the General Fund, financial resources are considered available if the revenue or other financing source is expected to be collected:

A. During the current fiscal period or soon enough after year-end to pay current period obligations

B. Immediately

C. At year-end

D. In the next fiscal year

In the modified accrual basis used by the General Fund, revenues are recognized only when they are measurable and available to finance the current period's expenditures. Availability means the revenue or other financing source can be used to pay current obligations; that generally means it is collected during the current fiscal period or soon enough after year-end to cover the current period's needs. This window is what ties revenue recognition to the ability to fund the current year, rather than waiting for some future period. Therefore, recognizing revenue only when it will be collected in time to pay current obligations best reflects the available resources concept. Revenues expected to be collected in the next fiscal year would not be considered available for the current period, and recognizing revenue immediately or only at year-end would not capture the intended timing.

7. Under the modified accrual basis of accounting, expenditures are generally recognized when:

A. Cash is paid

B. A new encumbrance is created

C. An obligation is incurred that will be paid from currently available financial resources

D. Revenue is recognized

Under the modified accrual method used by governmental funds, expenditures are recognized when there is an actual obligation to pay from current resources. This means the government records an expenditure when goods or services are received and a legal liability is incurred that will be paid from resources available in the current period. Cash payments later do not drive the timing, and recording an encumbrance is a separate commitment of resources that does not itself equal an expenditure. Revenue recognition is not about expenditures at all. Therefore, the correct understanding is that an expenditure is recognized when an obligation is incurred that will be paid from currently available financial resources.

8. In which fund balance category would cash restricted by grant agreements be reported?

A. Restricted Fund Balance

B. Committed Fund Balance

C. Assigned Fund Balance

D. Unassigned Fund Balance

Grant agreements impose externally enforceable limits on how cash may be used, so those funds are reported as restricted fund balance. Because the grantor specifies the allowable purposes (and sometimes time frames), the resources aren't available for other uses, fitting the restricted category. This differs from committed fund balance, which comes from internal actions by the government's highest decision-making authority, assigned fund balance, which reflects management's intent to use funds for a specific purpose, and unassigned fund balance, which represents funds with no constraints in the general fund. Therefore, cash restricted by grant agreements is classified as restricted fund balance.

9. When a fire truck purchased from General Fund revenues is received, which General Fund account should be debited?

A. Expenditures

B. Assets

C. Encumbrances

D. Appropriations

In the General Fund, a long term asset purchase is recorded as an expenditure when the goods are received. The fund's focus is on current financial resources, so the outlay for the fire truck is shown as an expenditure rather than directly recording an asset there. The actual asset would appear on the government-wide financial statements later as a capital asset, but in the General Fund the immediate recognition is an expenditure. So, when the fire truck is received, you debit Expenditures (to reflect the outlay from general revenues) and credit Cash or Accounts Payable, depending on whether you've paid or incurred a liability. Encumbrances would have been set up earlier to show a commitment, and Appropriations relate to budget authority, not the actual receipt of goods. That's why Expenditures is the appropriate General Fund debit.

10. The city amended its budget to increase grant revenues and increase expenditures by the same amount. The correct budget-amendment journal entry effect is:

A. There will be a net increase to Budgetary Fund Balance

B. There will be a net decrease to Budgetary Fund Balance

C. There will be a partial net adjustment to Budgetary Fund Balance

D. There will be no net adjustment to Budgetary Fund Balance

Budgetary accounting in governmental funds hinges on the relationship between estimated revenues and appropriations, with Budgetary Fund Balance reflecting the difference between the two. When a budget amendment increases grant revenues and also increases expenditures by the same amount, both sides of that equation rise equally. The journal entry moves the estimated revenues (up) and the appropriations or expenditures (up) by the same figure, so the difference between them—the Budgetary Fund Balance—remains unchanged. Therefore, there is no net adjustment to Budgetary Fund Balance. This highlights that the amendment affects planning and control accounts, not the budgetary balance itself. If only one side were adjusted, you would see a net change in the budgetary fund balance.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://gasbfasabstandards.examzify.com

We wish you the very best on your exam journey. You've got this!